

Ipsos MORI

Regional Report for the South East England Region

The National Business Survey

**Prepared for
The South East England Development Agency**

August 2008



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1. Introduction

Introduction

- This report is based on findings from wave one of the National Business Survey (NBS), Spring 2008, conducted by Ipsos MORI on behalf of the RDA Network. It explores perceptions of businesses across the South East region, on current and recent business conditions as well as looking forward to potential issues and views on projected change over the coming months. This report is accompanied by a national level publication on the findings of the National Business Survey.

Background and objectives

- The National Business Survey is a large scale research study conducted across England with businesses and organisations from all sectors of the economy (both private and public sector). The survey is conducted on behalf of the RDA Network and, as such, fieldwork is divided between England's nine Government Office Regions, with varied sample sizes within each region (as set out in the sample profile below).
- The survey builds on the findings and work of the previously titled "UK Survey of Regional Economic Trends" which ran over nine consecutive waves, from Spring 2003. The methodology and questionnaire remain largely unchanged from this previous survey to ensure consistency of the approach between survey waves and data (see below for more on research methods).

Methodology and sample sizes

- The National Business Survey uses a postal methodology, with the option of completing the survey online for those who find this more convenient.
- An initial mail-out was sent out to a randomly selected, representative sample of businesses and organisations across the country. Following this, supplementary postal reminders were sent out to all organisations which had not responded to

the original mailing, as well as email reminders to all organisations with email contact details.

- Fieldwork was conducted between April and June 2008 and the final achieved sample size across England was 4,797, divided between all regions, with a response rate of 6%. The table below shows how responses were broken down by each region.

REGION	SAMPLE SIZE
Yorkshire and Humber	1,144
West Midlands	319
South West	454
South East	657
North West	357
North East	307
London	414
East Midlands	735
East of England	410
England	4,797
Northern Ireland	438
TOTAL (England and Northern Ireland)	5,235

- Data have been weighted by region and business units by employee size bands to reflect the national profile. Within the South East, the data are also weighted by local authority to reflect the regional profile.

Report content, layout and contextual information

- The report includes a number of sections aimed to highlight the key findings from the survey, and makes extensive use of secondary data and comparator information in order to contextualise the findings. The sections include:
 - **Introduction:** Introduction to the survey objectives, methods and notes on interpreting the findings and using the report.

- **Executive Summary:** A stand-alone interpretive summary of the key survey findings.
 - **Business Climate:** The National Business Survey findings on business climate are placed within the context of national statistics on economic performance.
 - **Prices and Inflation:** The National Business Survey findings on prices and costs are placed within the context of inflationary trends.
 - **Investment Prospects:** The National Business Survey findings on output levels and planned spending are placed within the context of national statistics on output and investments levels.
 - **Labour Market in the Region:** The National Business Survey findings on employment levels and skills gaps are placed within the context of a range of labour market statistics.
 - **Location Drivers:** This section includes findings on satisfaction with a range of key business location factors.
 - **Strategic Business Planning:** This section includes findings on the usage and attitudes of a range of support services.
 - **Environmental Performance:** National Business Survey findings on actions taken to improve environmental performance are placed within the context of national level progress in reducing environmental emissions.
- The appendices contain a copy of the questionnaire used in the study, marked up with topline findings for each question. They also contain a statistical guide relating to the interpretation of data.

Publication of the data

- As with all our studies, these findings are subject to our standard Terms & Conditions of Contract. Any press release or publication of the findings of this survey requires the advance approval of Ipsos MORI. This would only be refused on the grounds of inaccuracy or misinterpretation of the findings.

Acknowledgements

- We would like to place on record our thanks for the input and support provided during the study from Daniela Freddi at the South East England Development Agency, as well as Ian Kay at the Office for National Statistics (ONS). We would also like to thank all businesses who took the time to take part in the survey.

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2. Executive Summary

Business Climate

- The National Business Survey has found that business confidence in the South East of England is at very low levels.¹ Close to a half of businesses in the South East (46%) expect the business climate to deteriorate. This rises to over a half of businesses in the hotels/catering (57%), distribution (53%) and primary/manufacturing (51%) sectors.² It is notable that only around a quarter of businesses in the public and personal services sector (26%) expect deterioration.
- Around four in ten businesses in the region (41%) expect prices charged to be higher in the next 12 months and close to a half expect profit margins to be lower (45%). Almost seven in ten of businesses in the hotels and catering sector (69%) expect profit margins to be lower.
- Almost nine out of ten of all businesses (88%) in the region say energy costs have increased in the past 12 months.
- Two thirds of all businesses (66%) say they have passed on increased costs to customers in the past 12 months, which is higher than the national level (57%).

Output and Investment

- A third of businesses expect domestic orders to be lower in the next 12 months and only one in five expect them to be higher.
- Close to six in ten of businesses (57%) say their present level of output is below capacity, which is similar to the national level (59%).
- Almost two thirds of businesses in the distribution (66%) and transport/storage/communications sectors (65%) say their present level of output is below capacity.

¹ All findings in this report are from the National Business Survey unless otherwise stated

² The first wave of fieldwork was conducted between May and June 2008.

- However, more businesses expect to increase spending than decrease spending in the next 12 months on buildings (net score of +22); training and retraining (+17); product and process development (+17); and plant and machinery (+11).

The Labour Market

- Unemployment rates in South East England (3.8%) are well below the national average (5.3%), and have fallen from a peak of 4.7% in 2006. Around one in six businesses expect the numbers employed to be lower in the next 12 months, and one in six expect them to be higher, with over a half of businesses expecting the trend to remain the same (57%).
- Around a quarter of businesses (24%) say they had staff vacancies in the last 12 months that were hard to fill or could not be filled.
- Exactly a half of businesses say that sales and marketing skills need improving in the next 12 months. Just under a half mention IT skills (45%) and around four in ten mention management skills (41%).

Location Drivers

- The highest responses for factors regarded as important to an organisation's competitiveness were workforce skills (78%) and management skills (73%).
- Government regulations were regarded as important by seven in ten of businesses, but only one in five were satisfied with them (21%).
- Only one in fourteen businesses (7%) have quantified CO₂ emissions; just over a quarter of all businesses have taken steps to reduce them.
- Around four in ten businesses have undertaken a recycling scheme (81%) and around a half have undertaken energy saving schemes (51%) and waste minimising schemes (47%).

3. The Business Climate

National Economic Performance

The prospects for the UK economy remain uncertain. Currently the key economic indicators point towards a continued economic slowdown, rather than contraction and recession. UK GDP grew by 0.2% in Q2 2008, a significantly lower rate compared to 2007.³ The latest summary of consensus forecasts from HM Treasury are for GDP to grow by 1.6% in 2008, a considerable slowdown on 2007 where growth was 3.1%.⁴

Therefore evidence exists of slowing growth, rather than contraction, and the UK economy has performed robustly alongside international benchmarks. In the United States, GDP growth was 0.9% in the first quarter of 2008, following contraction of 0.3% in the last quarter of 2007. This recent improvement has eased concerns that stagnation and possible contraction in the US economy will adversely affect the UK economy.

The Consumer Market and Inflation

Despite concerns over the strength of the UK economy, inflationary pressures and a weakening housing market, UK consumer spending will be important to the national and South East economies. The latest retail sales figures for June 2008 show a 3.9% contraction in sales volumes nationally, following robust expansion in May 2008 (and in the year to May 2008). The pattern of retail sales figures for 2008 shows a significant rise between January and February, followed by a dip in March, before the rise in May which was the largest monthly increase in over 20 years.⁵

Inflation remains a key threat to the stability of the UK economy. Consumer Price Inflation increased from 3.3% in May to 3.8% June, significantly higher than the Bank of England's 2% target and considerably above historical trends.⁶

³ HM Treasury *Pocket Databank*, 21st August 2008

⁴ HM Treasury *Forecasts for the UK Economy*, July 2008

⁵ Office of National Statistics/BBC News Online

⁶ Office for National Statistics

This reflects the increasing pressure on key consumer prices in the food and energy sectors, illustrated by a 9.5% rise in food prices in the 12 months to June.⁷ There is strong concern that rising prices may impact consumer confidence and spending if there is a downturn in the rate of average earnings or other shocks such as a sharp decline in house prices or employment levels.

Headline average earnings grew by 3.7% in the 3 months to June 2008, suggesting that earnings growth is matching price rises, with the consumer price index having grown at the level of 4.4% in the 12 months to July 2008. As consumers feel the impact of increasing prices on their incomes, there is also strong concern that employers will be pressured to increase wages among their employees to make up the shortfall, fuelling a wage / price inflationary spiral.

The Business Climate in South East England

The National Business Survey provides a key measure of business confidence, which will be tracked over time with findings broken down by key variables, including sector, business size and region.

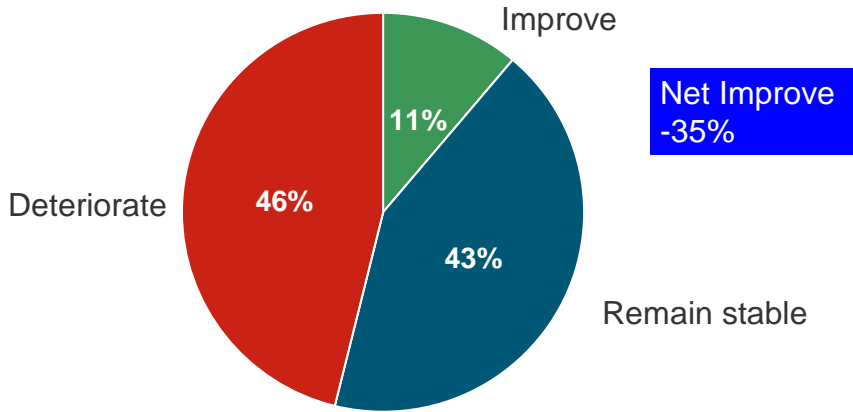
Concerns about the economy appear to be shared by businesses in South East England, and throughout England as a whole, with only around one in nine believing that the climate in which they operate will improve in the next 12 months (11%). Although over four in ten South East England businesses say that this will remain stable (43%), the most popular view is that the climate will deteriorate (46%).

⁷ Office for National Statistics/BBC News Online

Figure 1

Business climate

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?



Base: All businesses in South East answering (643)

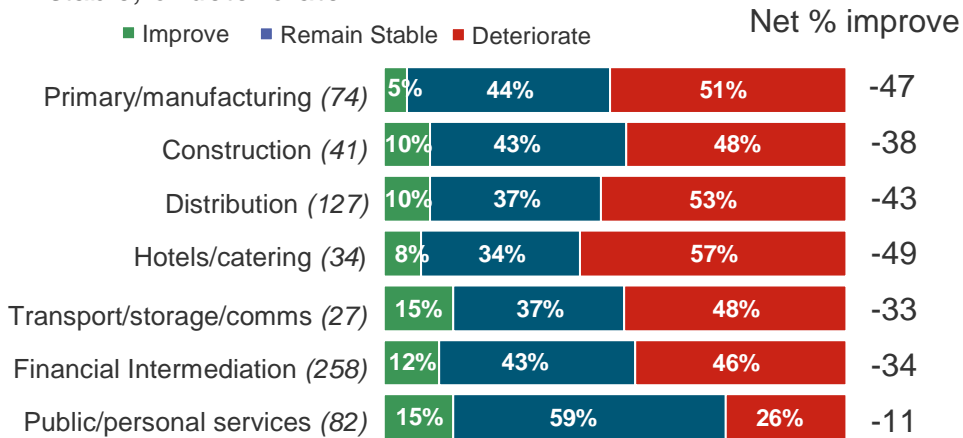
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Figure 2

Business climate by sector

Q Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?



Base: All businesses in South East answering (shown in brackets)

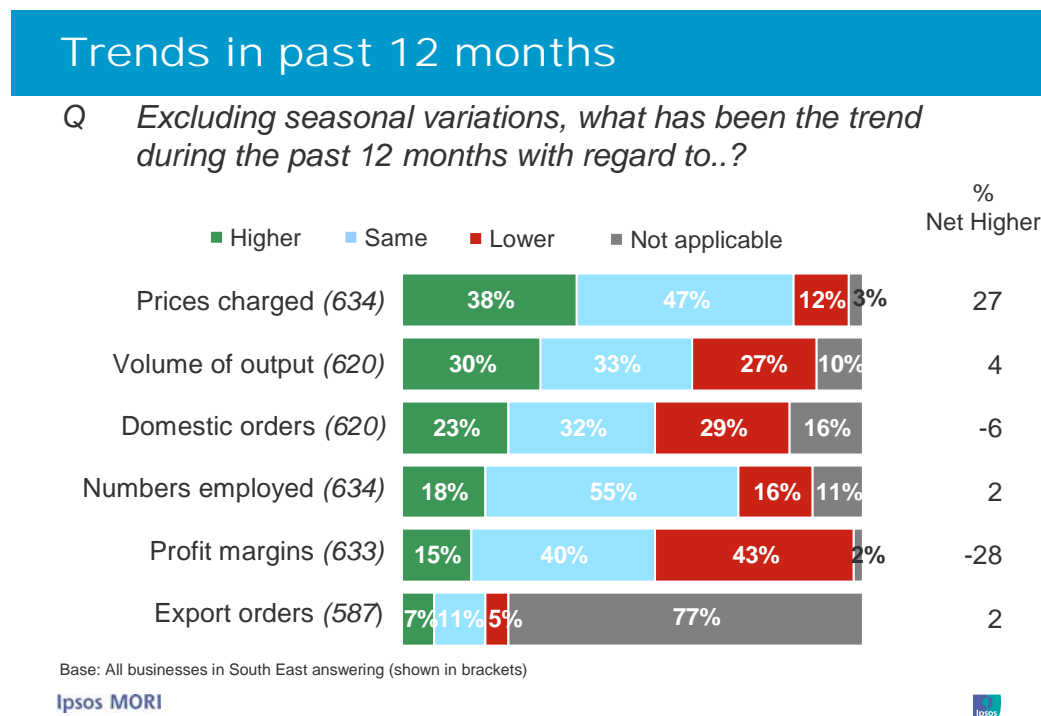
Ipsos MORI



The chart above shows a net score of -49 for the hotels/catering sector and -47 for the primary/manufacturing sector, based on the balance of those who say the business climate will improve, minus those who say it will deteriorate⁸.

Business Trends in the Region

Figure 3



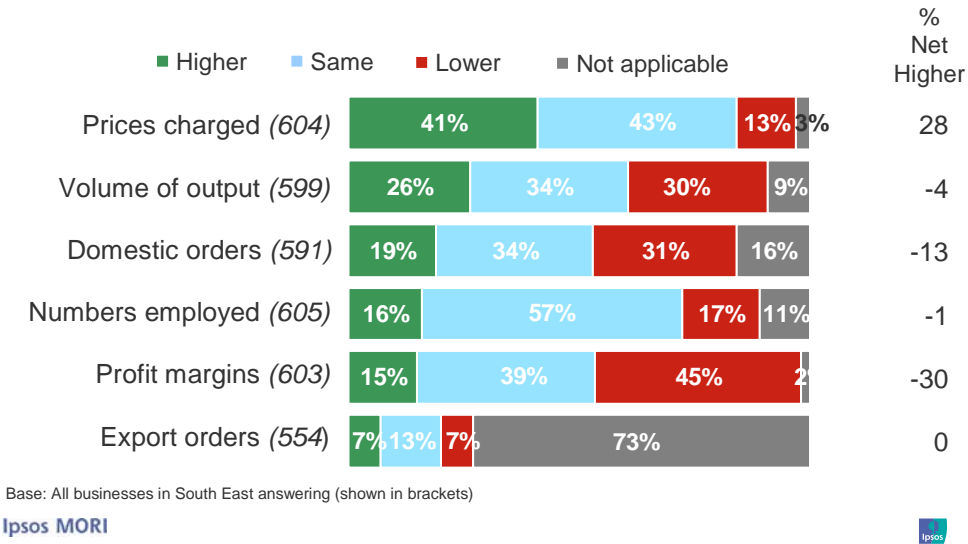
Almost four in ten businesses say that prices charged have increased in the past 12 months, whilst over four in ten say profit margins are lower. The trends for volume of output, domestic orders and numbers employed are fairly balanced for the last 12 months, though slightly negative overall for domestic orders.

⁸ Please note that the sample sizes for the construction, hotels/catering and transport/storage/communications sector are relatively small so caution should be applied here and throughout the report to interpretations for these sectors.

Figure 4

Trends for next 12 months

Q *Excluding seasonal variations, what are the expected trends for the next 12 months with regard to..?*

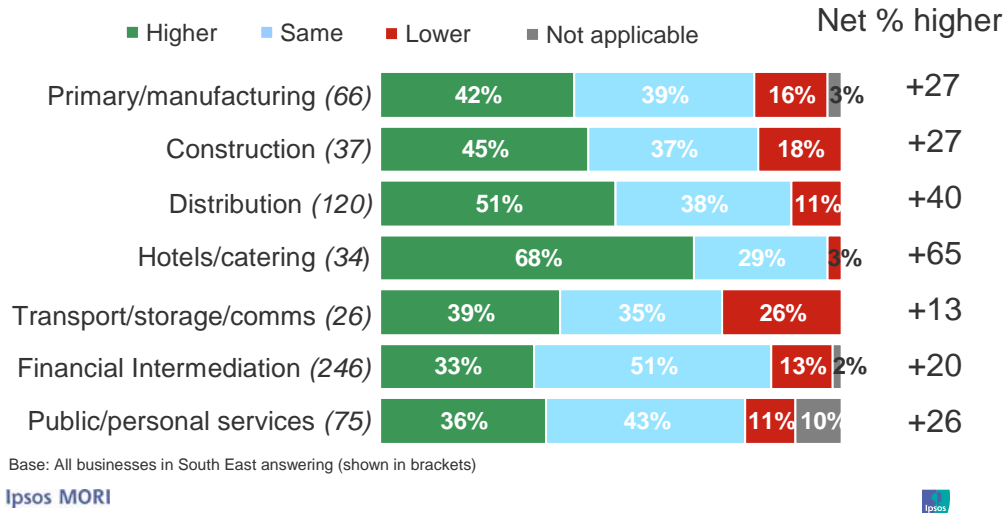


The expected trends for the next 12 months are more pessimistic generally than those for the past 12 months, with three in ten of businesses expecting the volume of output to fall and only a quarter expecting it to be higher. A third of businesses also expect domestic orders to fall, and only one in five expect them to increase. The views on profit margins are similar to those for the past 12 months, with close to a half of businesses expecting them to be lower, and around one in six expecting them to be higher.

Figure 5

Trends in next 12 months by sector: prices charged

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to prices charged?

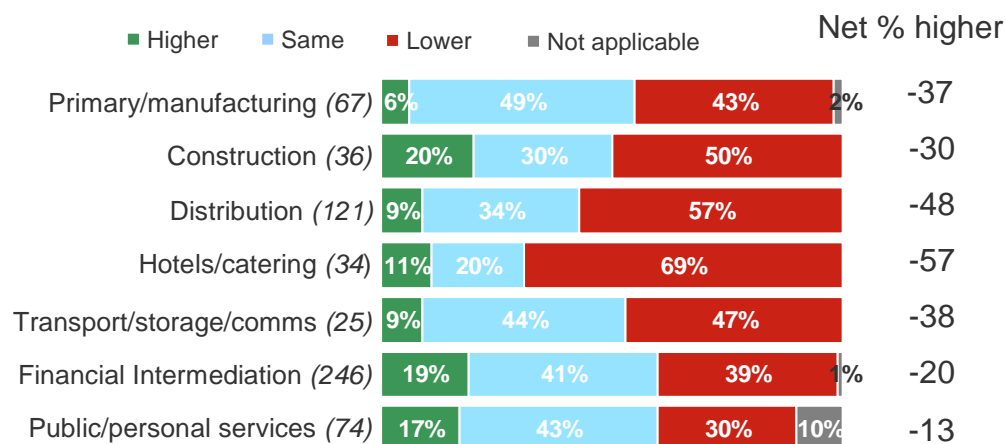


Examining the expected trends in prices charged by sector reveals that almost seven in ten businesses in the hotels/catering sector expect increases to prices charged (68% compared to the 41% average). A half of businesses in the distribution sector (51%) also expect higher prices. Compared to England as a whole the South East is more likely to expect an increase in prices charged in the hotels and catering sector (68% compared to 60% in England), while they are less likely to expect an increase in the primary and transport sectors (42% vs. 50% and 39% vs. 48%)

Figure 6

Trends in next 12 months by sector: profit margins

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to profit margins?



Base: All businesses in South East answering (shown in brackets)

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It is particularly notable that almost seven in ten of businesses (69%) in the hotels and catering sector expect profit margins to be lower in the next 12 months. Close to six in ten of businesses in the distribution (57%) expect profit margins to be lower, compared to a 45% regional average.

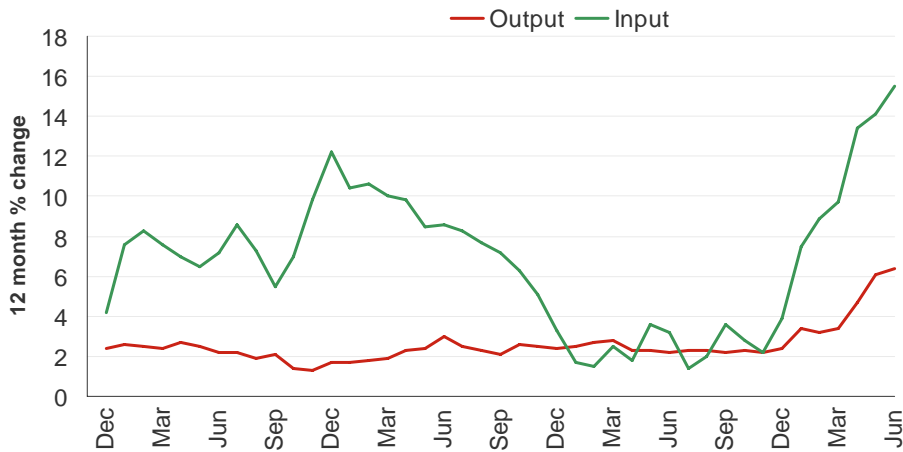
4. Prices and Inflation

The National Business Survey sought to explore the key concerns businesses face in terms of costs and the impact of these costs on prices charged for goods and services.

The Office for National Statistics (ONS) produces a monthly Manufacturing Producer Price Index which analyses the relationship between producer input and output prices as shown below;

Figure 7

Manufacturing Producer Price Index



excluding food, beverages, tobacco products and petroleum products, UK, not seasonally adjusted (December 2004 – June 2008)

Ipsos Loyalty



Prior to Quarter 3 in 2007, the relationship between input and output prices was loose. Producers effectively absorbed fluctuations in input prices and minimised the variations in output prices which drive inflation. However, after Q3 2007, there was a step change in the relationship between input and output prices. Differences in input and output costs tend to be less pronounced when the economy is growing and manufacturers can more easily pass on the rising cost of production (as in 2007) but can become more pronounced when the economy is growing less quickly.

It is important to recognise that the national economy has experienced a similar imbalance in the relationship between input and output costs within the current economic cycle and addressed the imbalance as growth picked up.

Global commodity and oil prices clearly have a direct bearing on future prospects. The recent sustained fall in oil prices against a backdrop of greater consistency in non-food commodity prices will be important in restoring confidence.

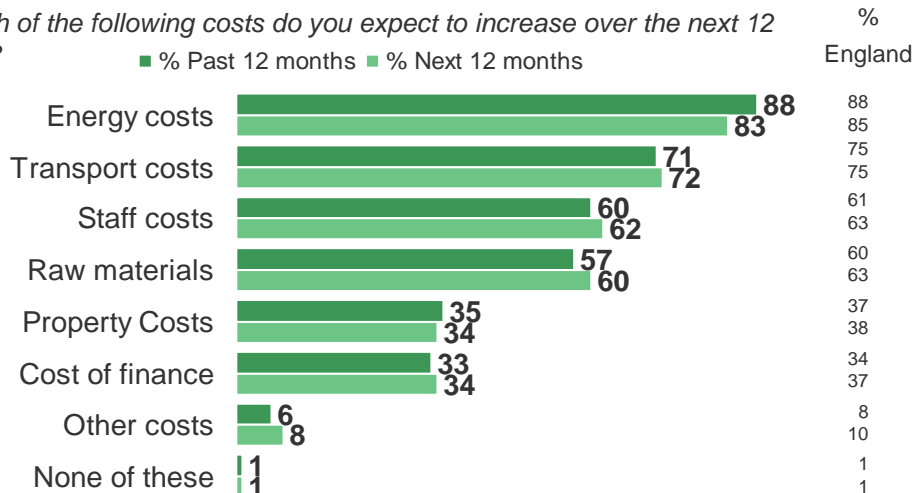
When asked about cost increases in the National Business Survey, businesses in South East England again reflect the national picture, with energy and transport costs seen as the costs which have increased most over the past year (88% and 71% respectively) and most likely to increase over the next 12 months (83% and 72% respectively).

Figure 8

Cost increases – past and future

Q Which of the following costs have increased for your business over the past 12 months?

Q Which of the following costs do you expect to increase over the next 12 months?



Base: All businesses in South East answering (615 and 596)
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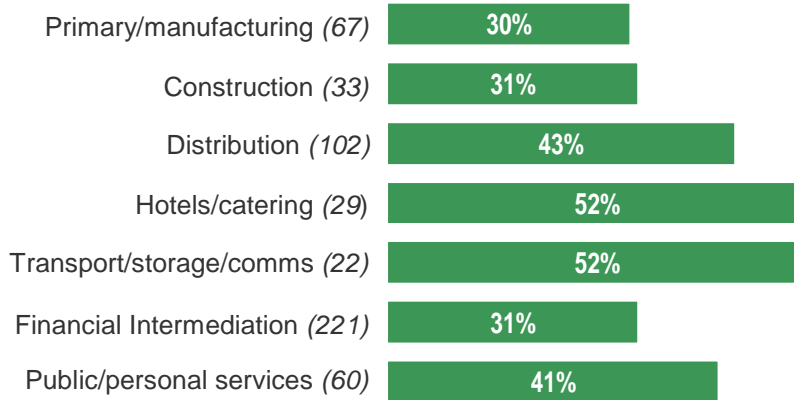
Amongst different sectors, hotels and catering businesses are more likely than average to say that **almost all** categories have seen costs increase over the past year, and to expect costs to increase over the coming 12 months. This sector (along with transport) is also much more likely to state that energy costs are the main upward cost pressure at present (52% say this in the sector compared to 36% for the region overall).

An increase in cost of raw materials and bought in services over the past 12 months is more prevalent in the hotels and catering and construction sectors, 91% and 90% respectively compared to 57% regional average. In the next 12 months both of these sectors expect this cost to increase (86% for both compared to a regional average of 60%). Primary and construction sectors expect the cost of transport to increase (91% vs. 72%) and 81% of the hotels and catering sector expect staff costs to increase compared to 62% in the South East.

Figure 9

Main upward cost pressure by sector: energy costs

Q Which of the following costs presents the main upward cost pressure on your business at present? – Energy costs



Base: All businesses in South East answering (shown in brackets)

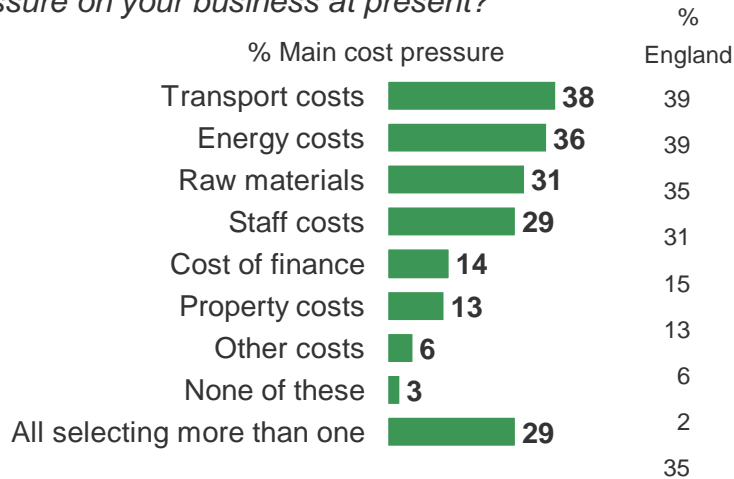
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Figure 10

Main upward cost pressure

Q Which of the following costs presents the main upward cost pressure on your business at present?



Base: All businesses in South East answering (534)

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Transport costs are seen as the main upward pressure on costs at present in South East England, with almost four in ten (38%) businesses saying this compared to 35% at the national level. Energy and raw materials costs are also important drivers of increased costs (36% and 31% respectively), though pressures are slightly lower compared to the national level (39% in each case).

Two thirds of businesses in the South East (66%) have passed some or all of their increased costs on to their customers in the past year. There is a **notable difference between sectors**, with the transport/storage/communications (80%), primary/manufacturing (77%) and catering (75%) sectors more likely than overall to say that they have passed on costs, while public and personal sectors (43%) are more likely to say that they have not.

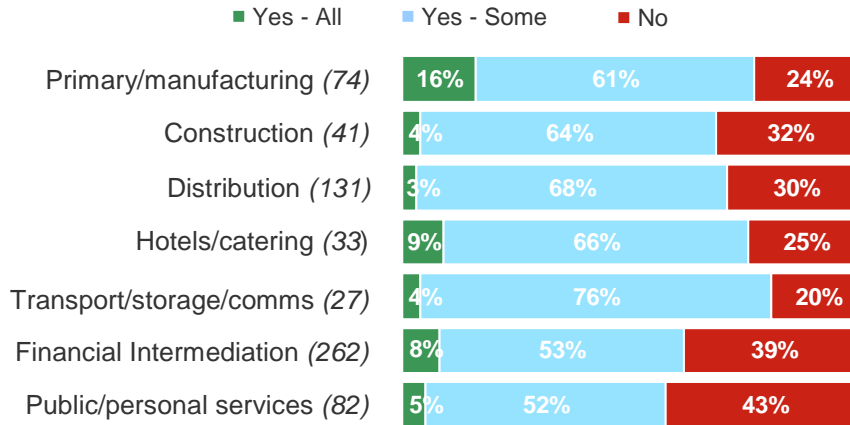
It is notable generally that the public and personal services and finance and business services sector are less likely to pass on increased costs. This suggests that these service sectors are currently stronger than other sectors and less challenged by the current economic climate.

Compared to England as a whole the primary sector in the South East is more likely to pass on increased costs (16% compared to 8% in England), while the transport sector is less likely to pass on costs (4% vs. 10%)

Figure 11

Increased costs by sector

Q Have you passed on any increased costs to your customers in the past 12 months?



Base: All businesses in South East answering (shown in brackets)

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5. Investment Prospects

This section will assess investment prospects for businesses, by comparing the latest national statistics with the findings from the National Business Survey which relate to the crucial areas of future spending plans.

National Statistics: Output Trends

It is worth noting the latest national statistics on output levels, as an overall indicator of the current health of the economy, before comparing this with the views of businesses on past and expected trends.

At a national level, service sector output was fairly buoyant in the three months to April 2008, with growth of 2.4%.⁹ However in the last four quarters, the growth has slowed from 3.9% per quarter to 2.7% in Q1 2008. Output growth in manufacturing declined at -0.2% and industrial production also declined (-0.5%) in the three months to May 2008.

This points to a challenging picture in terms of manufacturing output and suggests that strong growth in the service sector has been maintaining the overall growth levels in the economy.

National Business Survey Findings: Levels of Output

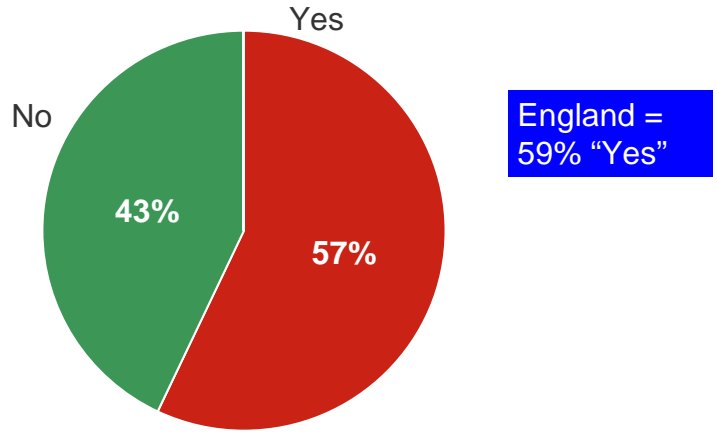
Approaching six in ten businesses in South East England (57%) indicate that their output is currently below capacity (this compares to 59% nationally). This rises to around two thirds of businesses in the distribution and transport/storage/communication sectors. In the South East, 58% of those in the hotels and catering sector said that their present level of output was below capacity – this is lower than England as a whole where 70% of those in the sector said they were below capacity.

⁹ HM Treasury *Pocket Databank*, 21st August 2008.

Figure 12

Level of output

Q Is your present level of output below capacity?



Base: All businesses in South East (642)

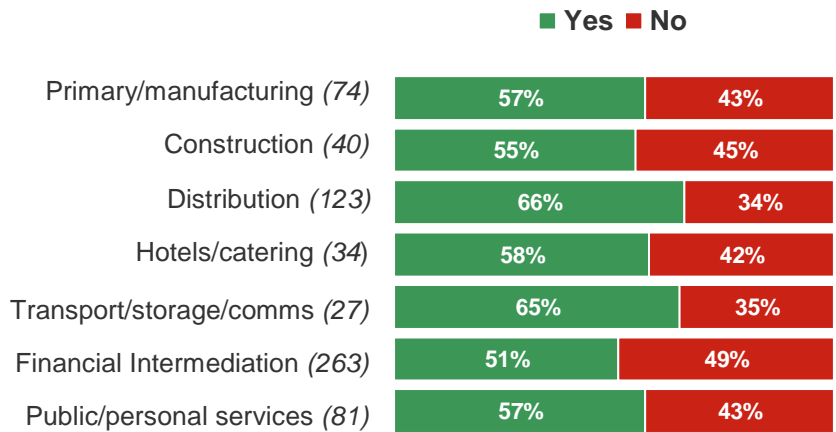
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Figure 13

Level of output by sector

Q Is your present level of output below capacity?



Base: All businesses in South East answering (shown in brackets)

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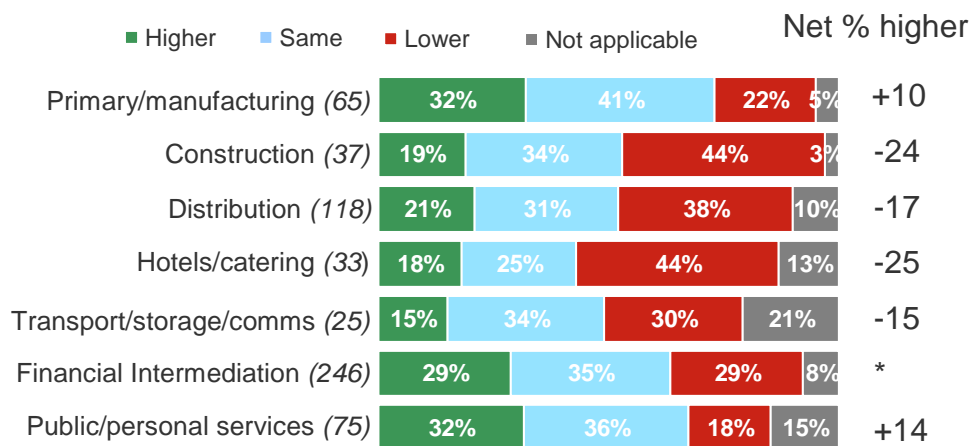
National Business Survey Findings: Output Trends

The charts below present the National Business Survey findings on volume of output, when businesses were asked about past trends over the last 12 months and expected trends over the next 12 months.

Figure 14

Trends in next 12 months by sector: volume of output

Q Excluding seasonal variations, what has been the trend during the next 12 months with regard to volume of output?



Base: All businesses in South East answering (shown in brackets)

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The national picture is generally reflected in the views of South East England businesses. The lowest net scores¹⁰ by sector are in hotels/catering (-25) and construction (-24).

These figures again suggest that sentiment is much more positive among businesses within the services sector and the primary/manufacturing sector, compared to the secondary industries of the economy.

¹⁰ Net scores: the score derived from subtracting the score of those who think that output will be lower from the proportion of those who think it will be higher

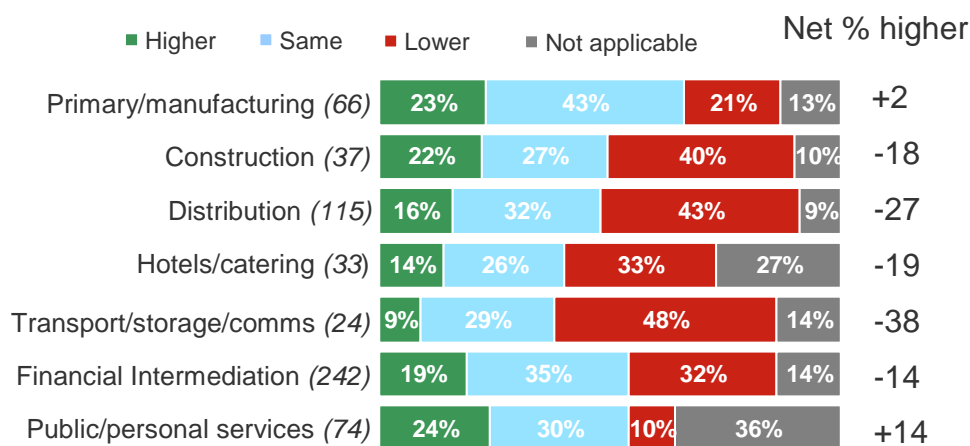
National Business Survey Findings: Domestic Orders

On average around three in ten of businesses (31%) expect domestic orders to be lower in the next 12 months, and one in five (19%) expect them to be higher. In the transport/storage/communications sector almost a half of businesses (48%) expect orders to be lower, and the outlook is also fairly gloomy in the distribution sector with more than four in ten (43%) expecting lower orders.

Figure 15

Trends in next 12 months by sector: domestic orders

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to domestic orders?



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI



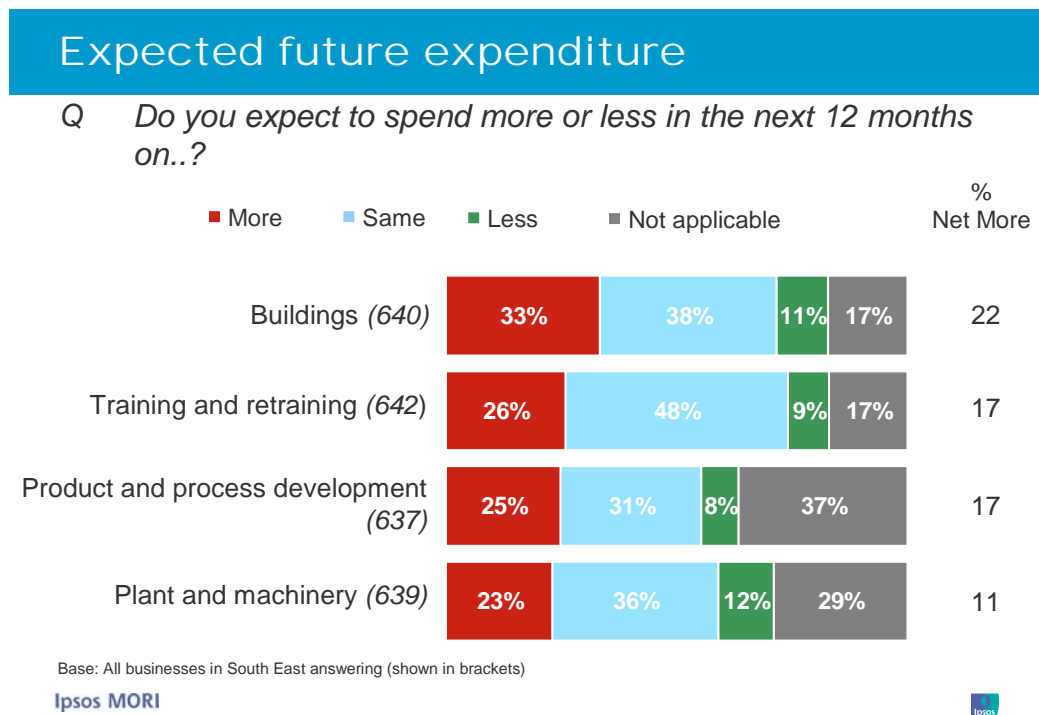
National Statistics: Investment Levels

HM Treasury reported that business investment levels increased by 4.5% year-on-year in Q1 2008, following growth of 6.7% over 2007.¹¹ Investment levels in manufacturing fell by 3.2% year-on-year in Q1, which is of concern, while service sector investment increased strongly by 5.9%. Therefore the declining investment levels in manufacturing are dragging down the overall business investment level, which is generally healthy at the aggregate level.

¹¹ HM Treasury *Pocket Databank*, 21st August 2008. Based on the NPQT Index of Whole Economy Investment levels.

National Business Survey Findings

Figure 16



With the national picture showing continued growth in business investment, businesses in the South East also suggest that they will spend more on building (net score of +22), training and retraining (+17), product and process development (+17) and plant and machinery (+11) in the next 12 months.

6. Labour Market in the Region

This section will review the national and regional statistics on the labour market, before presenting the National Business Survey findings on the following topics: skills gaps and needs affecting businesses; staff vacancies; and the provision of training. The National Business Survey findings are placed within the context of the Leitch Review¹², and the findings of the 2007 National Employer and Skills Survey.

Unemployment: National Context

The recessions of the early 1980's and early 1990's were characterised by unemployment levels rising to over three million. Claimant unemployment rate in the UK was just over 871,000 in July 2008, representing 2.3% of the working age population.¹³

The economic forecasts of independent city institutions predict a ten per cent rise in claimant unemployment¹⁴ between 2008 and 2009, with a further seven per cent rise by 2011.¹⁵ In particular, concern exists about further job losses in certain sectors that have been particularly affected by the credit crunch, such as the housing and finance and business service industries.

The Labour Force in South East England

The labour force size in the region has increased from 4,043,000 in 2003 to 4,125,000 in 2007.¹⁶ This equates to an increase of 2.0%, which compares to a national rise of 2.9%.

¹² Leitch Review of Skills, *Prosperity for all in the global economy - world class skills*, December 2006

¹³ Office for National Statistics, *Nomis Labour Market Statistics* (May 2008)

¹⁴ This is a different measure from the International Labour Organisation definition. The claimant count is based on those receiving Jobseekers Allowance.

¹⁵ HM Treasury *Forecasts for the UK Economy*, July 2008

¹⁶ Office for National Statistics *Labour Force Survey*. Seasonally adjusted data for people of working age, men aged 16-64 and women aged 16 to 59.

Unemployment Rates¹⁷

Figure 17

<i>Unemployment rates by region, 2003 – 2008 (second quarter of each year)</i>						
	2003	2004	2005	2006	2007	2008
Yorkshire and the Humber	5.2	4.7	4.9	5.9	5.7	5.4
North East	6.2	5.6	6.8	6.2	6.6	7.0
North West	5.0	4.5	4.5	5.4	6.0	6.1
East Midlands	4.3	4.3	4.3	5.5	5.1	5.4
West Midlands	5.8	5.7	4.8	5.9	7.1	6.4
East	4.0	3.8	4.0	5.2	4.8	4.5
London	7.4	7.1	7.3	8.0	7.5	6.9
South East	4.0	3.8	3.9	4.7	4.3	3.8
South West	3.5	3.8	3.3	3.8	4.1	4.0
Scotland	5.3	6.1	5.5	5.5	4.6	4.4
Wales	4.7	4.4	4.7	5.9	5.8	5.3
Northern Ireland	5.4	5.3	5.1	4.4	3.8	3.9
UK	5.0	4.9	4.9	5.6	5.5	5.3

Unemployment levels in the region are well below the national average. The unemployment rate in the South East decreased from 4.0% in 2003 to 3.8% in 2008, compared to the national average of 5.5%. During this time it peaked at 4.7% in 2006, but has since fallen sharply.

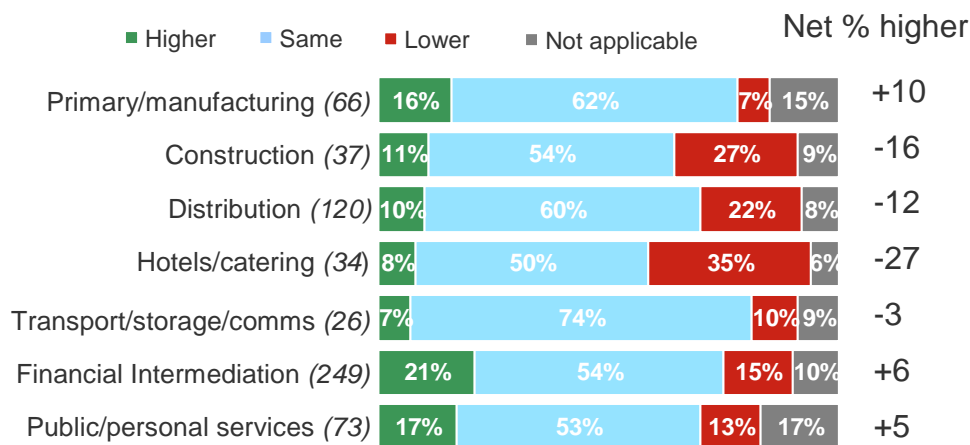
¹⁷ Office for National Statistics Labour Force Survey. For those people of working age, seasonally adjusted.

The National Business Survey shows that within the region, 16% of businesses expect the trend in the next 12 months for numbers to be higher and 17% expect it to be lower, equating to a net score of -1. The chart below shows that the net score is positive for businesses in the primary/manufacturing, finance/business and public/personal services sectors. Around a third of businesses in the construction and hotels/catering sectors expect the numbers employed to be lower in the next 12 months. A third of businesses with over 50 employees expect the numbers employed to be higher compared to the regional average of 16%.

Figure 18

Trends in next 12 months by sector: numbers employed

Q Excluding seasonal variations, what are the expected trends in the next 12 months with regard to numbers employed?



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI



Addressing Skills Gaps in the Labour Market

In 2006, the government published a major report on the state of labour force skills in the UK – ‘The Leitch Review of Skills’. The report concluded that the economy has a serious legacy of low skills, is deficient at intermediate and technical levels and is also likely to fall behind at degree level. It was estimated that by 2020 nearly 20 million additional people will need higher skill levels than at present.

The report concluded that a major plank of government reforms needs to be focused on improving the skills of the existing workforce. Addressing these skills gaps is therefore a key priority for maintaining the competitiveness of the UK economy in the global marketplace. This section contrasts the National Business Survey findings on the labour market, with the longitudinal National Employers and Skills Survey (NESS) conducted by the Learning and Skills Council, which was set up to tackle these skills deficits.

The table below shows how skills gaps have changed at a regional level between the NESS results of 2005 and 2007.

Figure 19

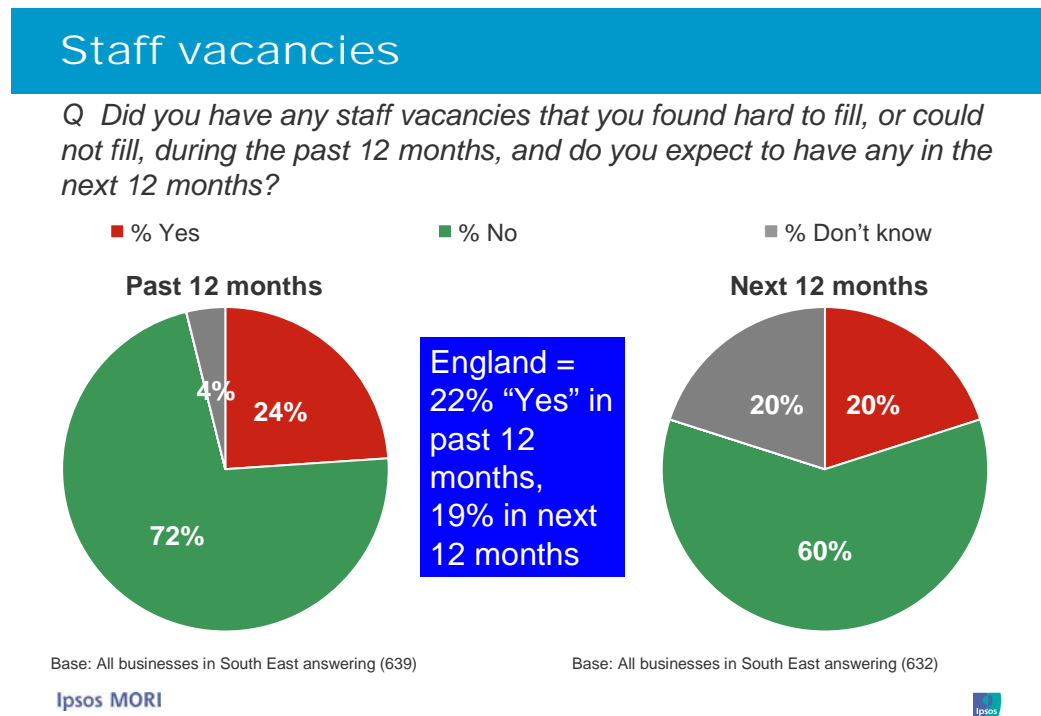
<i>The Incidence and Number of Skills Gaps by Region (NESS, 2005 - 2007)</i>			
	% of establishments with any skills gaps	% of establishments with any skills gaps	Number of employees not fully proficient (i.e. number of skills gaps)
	<i>2005</i>	<i>2007</i>	
Overall	16	15	1,361,100
North East	21	19	61,900
London	13	17	287,300
South West	15	16	137,600
South East	18	15	211,000
East Midlands	15	15	114,700
Eastern	15	15	145,500
Yorkshire and the Humber	23	14	110,800
North West	16	14	166,500
West Midlands	16	14	125,800

There has been a fall in the percentage of establishments reporting skills gaps in the South East region from 18% in 2005 to 15% in 2007 (UK average: 15%).

National Business Survey Findings: Staff Vacancies

The National Business Survey asked businesses about whether they found that staff vacancies were hard to fill or could not be filled, with the results presented in the charts below.

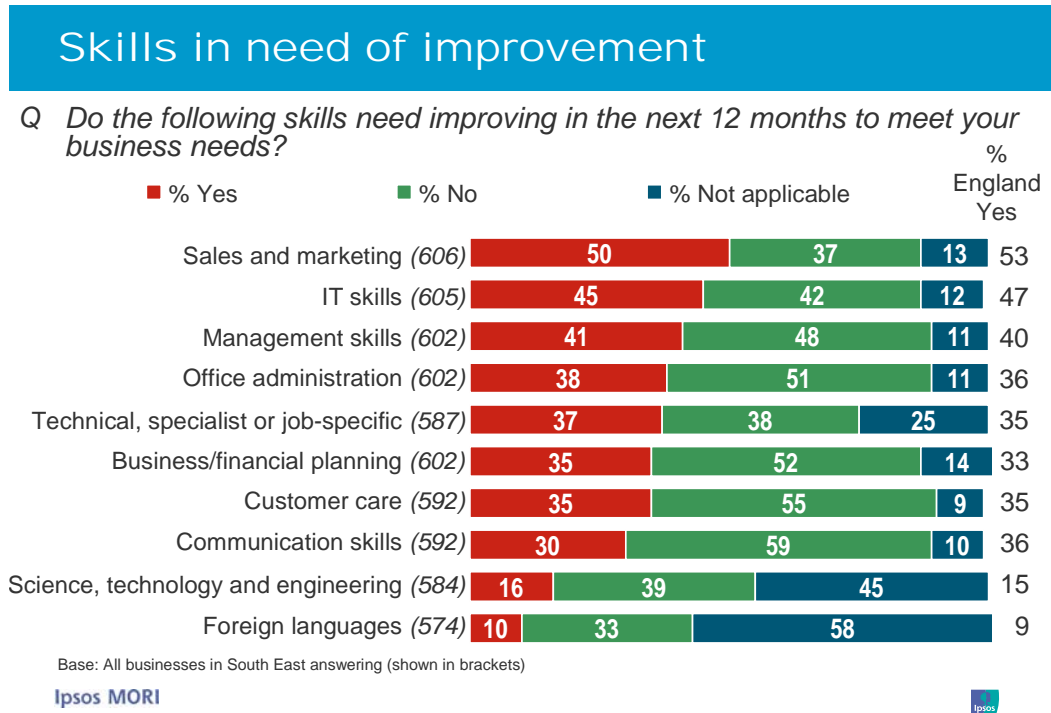
Figure 20



Nearly one quarter of businesses (24%) in the South East region struggled to fill staff vacancies in the past year, roughly the same as nationally (22%). Smaller businesses, those with just 1-9 employees, and those with lowest turnover were least likely to have had trouble filling vacancies (only 18% and 21% respectively said they had struggled to fill staff vacancies).

One in five (20%) businesses expected to have problems filling vacancies in the year ahead, a similar proportion to nationally (19%).

Figure 21

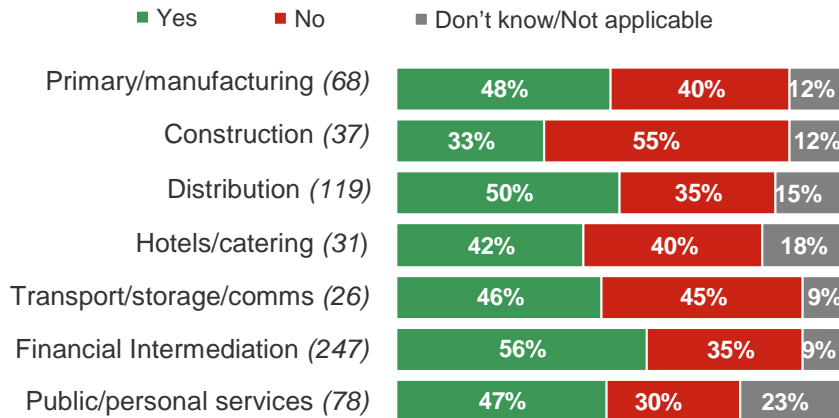


The National Business Survey found that a half of businesses need an improvement in sales and marketing skills and almost a half need an improvement in IT skills.

Figure 22

Skills improvement by sector: sales and marketing

Q Do the following skills need improving during the next 12 months to meet your business needs? – Sales and Marketing



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

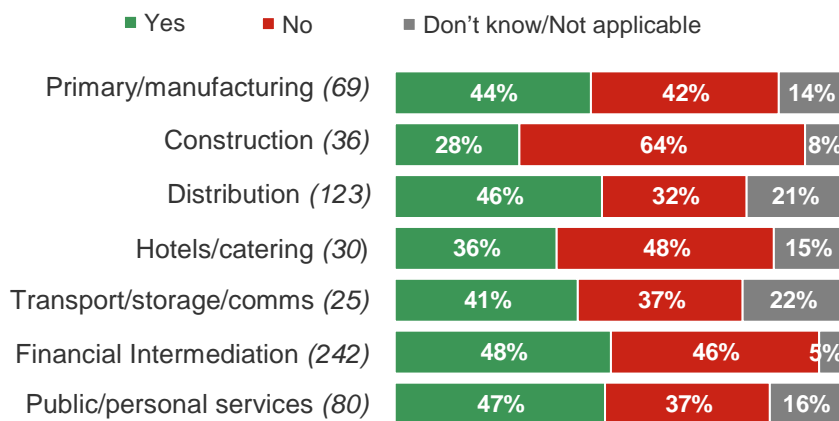


The need for sales and marketing skills is highest in the finance/business sector, with over a half of businesses reporting this (56%). Sales and marketing skills are less likely to need improvement in the South East across all sectors compared to England as a whole. This is even more prevalent in the hotels and catering sector where 42% in the South East feel that these skills will need improving, compared to 59% in England.

Figure 23

Skills improvement by sector: IT skills

Q Do the following skills need improving during the next 12 months to meet your business needs? – IT Skills



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

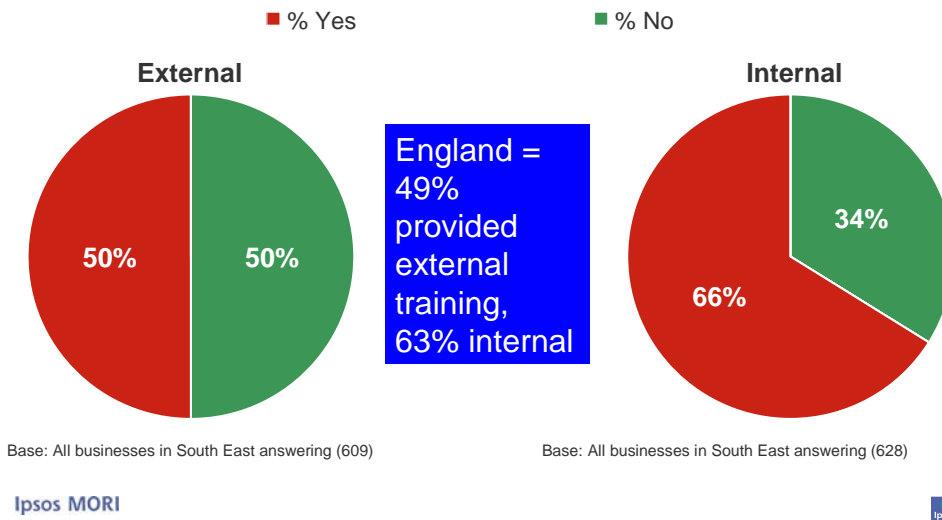


Overall almost half of businesses (45%) in the region say there is a need for improving IT skills. There is a little variation by sector, though the need is less prevalent amongst businesses in the construction and hotels/catering sectors.

Figure 24

Provision of staff training

Q Did you provide any formal external or internal training for your staff over the last 12 months?



Half of businesses in the region (50%) say that they provided external training for staff in the past year, a similar proportion to nationally (49%). The public and personal services sector is most likely to provide external training, with two thirds of businesses providing this (67%). Other subgroups that are more likely to provide external training include:

- Those that have struggled to fill staff vacancies (71%);
- Those that have a formal business growth plan (63%); and
- Those that are subsidiary companies (UK 69% / Foreign Parent 76%)

Two thirds of businesses in the region (66%) provide internal training, slightly above the national level (63%). Businesses in the personal and public services (82%), and hotels and catering sectors (76%) are more likely to offer internal training than other sectors.

Provision of training, whether external or internal, was also dependent on the size of a business, both in terms of number of employees and turnover – larger businesses

being more likely to provide training. For example, eight in ten (81%) businesses with at least fifty employees provided external training, compared to 50% overall, and almost nine in ten (88%) provided training internally, compared to 66% overall.

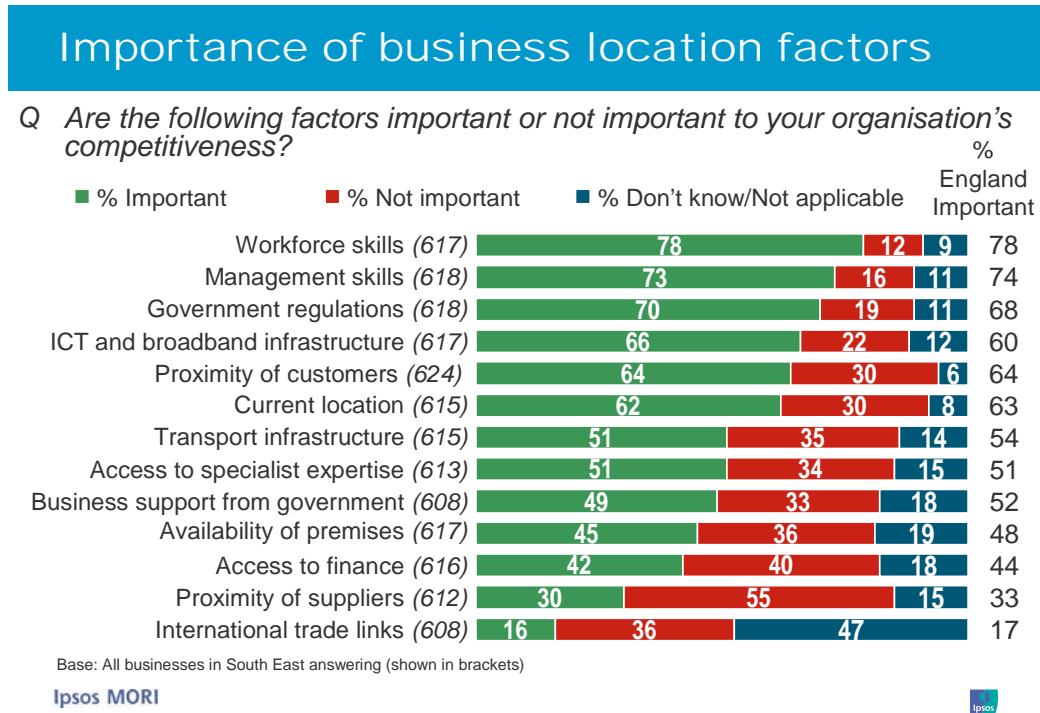
7. Location Drivers

The following addresses the other key business metrics that are crucial for assessing the health of an economy and the prospects for growth and investment. The National Business Survey asked businesses to provide their views on the importance of a series of business location factors. The findings on importance have been compared with the satisfaction levels for these factors as presented in figure 26. The results of this analysis are then placed alongside a profile of sales and purchases at a regional, national and international level.

Business competitiveness factors and location

In the National Business Survey, businesses were asked which factors were most important to their businesses' competitiveness. Nearly four in five (78%) indicated that workforce skills were important, followed by management skills (73%), government regulations (70%), ICT and broadband infrastructure (66%) and proximity of customers (64%). The least important factors were considered to be proximity of suppliers (30%) and international trade links (16%). For all the statements, there were no major differences between the regional and national level responses findings.

Figure 25



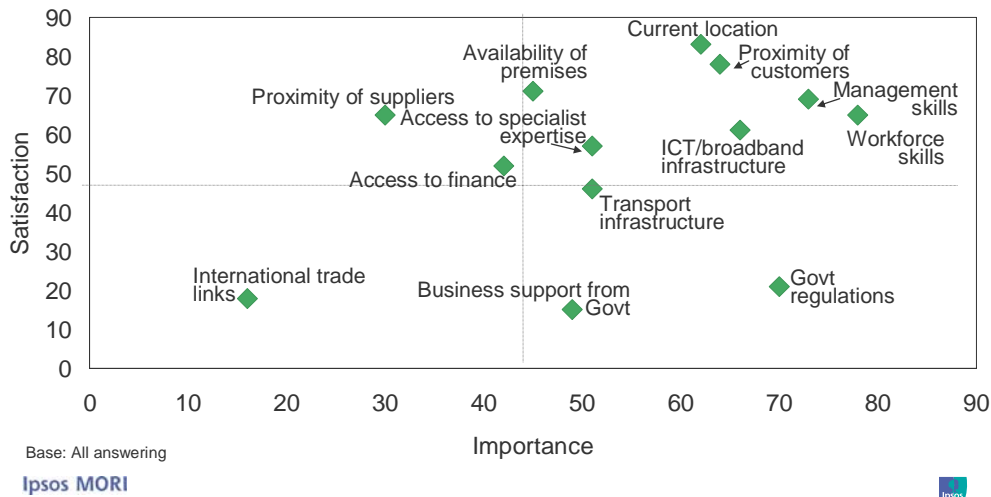
There were some variations in findings by sector. For example, the construction (94%) and public/personal services sectors (86%) placed greater emphasis on workforce skills than the regional average (78%), whilst finance and business services put more emphasis than average on access to specialist expertise (62% compared to 51%).

Figure 26

Business location: Importance vs. Satisfaction

Q Are the following factors important or not important to your organisation's competitiveness?

Q Are you satisfied with each of the following in the area in which your business is located?



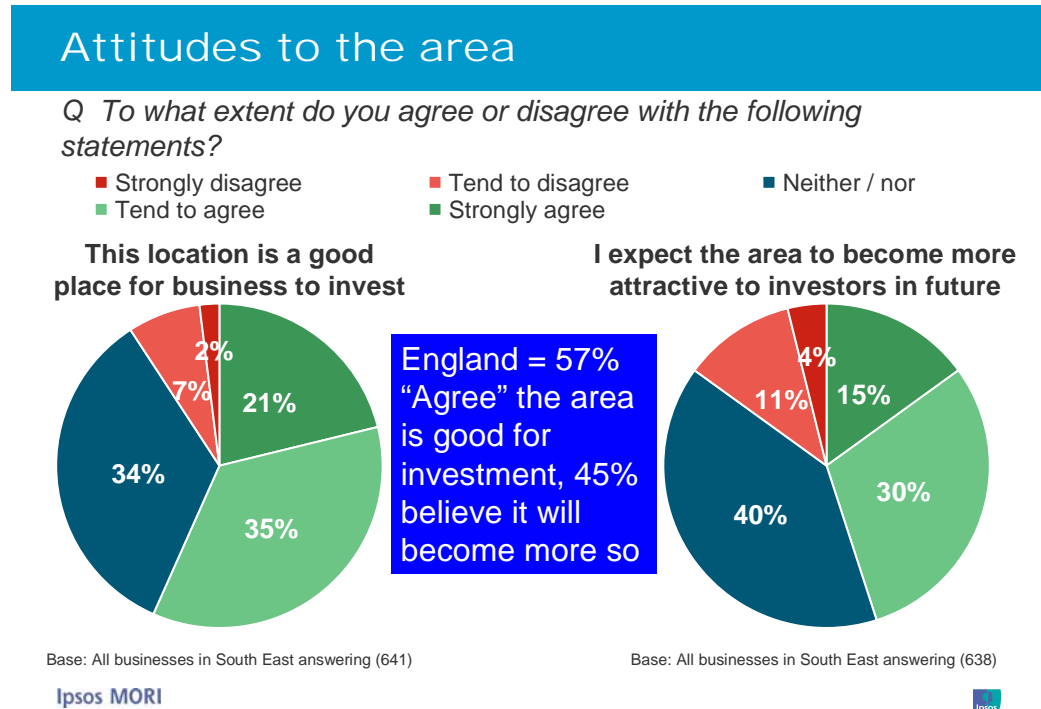
Whilst satisfaction with workforce skills is reasonably high (65%), five other factors - current location, proximity of customers, proximity of suppliers, availability of premises, and management skills - showed higher levels of satisfaction than this most important of factors. Similarly, there was a notable difference between the proportion of businesses who indicate that government regulations are important (70%) and the proportion expressing satisfaction with this factor (21%).

Such contrasts are illustrated in the chart above, plotting importance against satisfaction. The top right quadrant contains factors which are important and which businesses express satisfaction with, such as workforce skills, management skills and proximity to customers. The bottom right quadrant, on the other hand, contains factors which are considered to be important but which businesses in the South East are also dissatisfied with.

This analysis reveals a particularly significant gap in terms of the expectations of the government's role and the reality. Businesses see the public sector as having a key part to play in making an area attractive to investors, and it would appear that these expectations are not currently being met. One other area where importance outstrips

satisfaction, albeit not to the same extent, is transport infrastructure. This gap, however, is not unique to the South East.

Figure 27



More than half of businesses in the South East (56%) agree that the location is a good place to invest, this is similar to the national average of 57%. Across the market sectors 71% of businesses in the hotels and catering sector and 61% in the distribution sector agreed with this statement. However when asked if the area would become more attractive to investors in the future, slightly less businesses agreed – 45%.

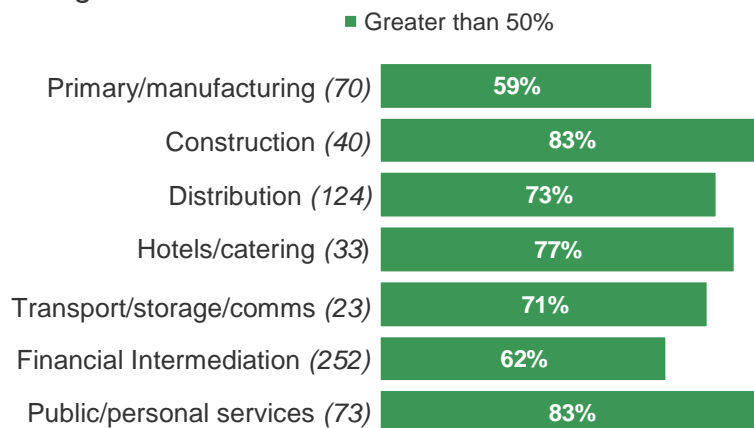
The Regional Market: Sales and Purchases

The National Business Survey asked businesses about the proportion of their sales and purchases conducted at the regional, national and international level. The findings presented below demonstrate the importance of the regional market for many businesses.

Figure 28

Proportion of sales within region by sector

Q Please estimate the proportion of your sales within your region



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

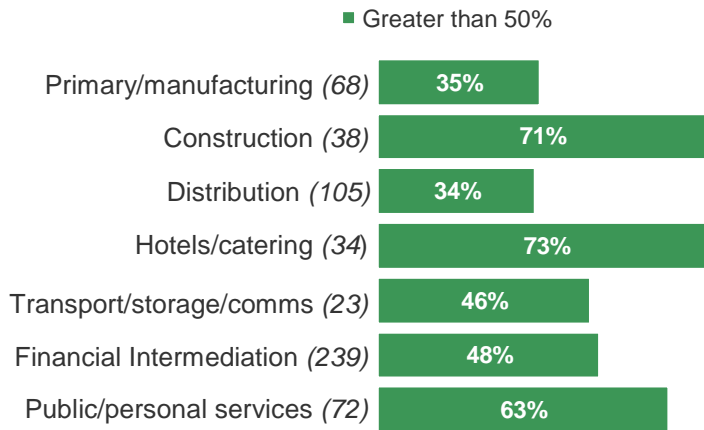


Seven in ten of businesses conduct more than half of their sales within the region. This rises to over four in five for the construction and public/personal services sectors (83% in both cases).

Figure 29

Proportion of purchases within region by sector

Q Please estimate the proportion of your purchases within your region



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI



Just under a half of businesses (49%) conduct over 50% of their purchases within the region. This rises to over seven in ten for the hotels/catering (73%) and construction (71%) sectors, compared to only a third (34%) for the distribution sector.

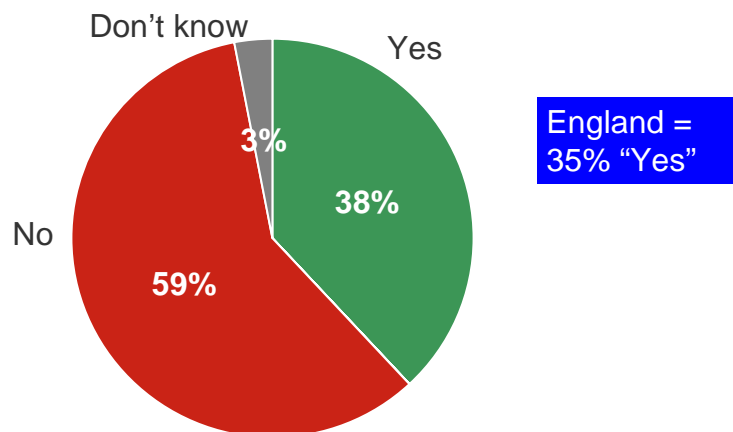
8. Strategic Business Planning

This section considers the National Business Survey findings that relate to strategic business planning. The use of these resources can be a crucial support for planning business development and future investment. To shed further light on this, the National Business Survey asked businesses if they have a formal business growth plan, with the findings displayed in the chart below.

Figure 30

Formal business growth plans

Q Does your company have a formal business growth plan?



Base: All businesses in South East answering (645)

Ipsos MORI



Just under four in ten businesses in the region have a formal business growth plan, varying from around one in five in the construction sector (22%) to close to half in the finance and business services sector (45%). Six in ten businesses with 50 or more employees have a formal growth business plan, compared to only a third for those businesses (33%) with less than 10 employees.

Expenditure on Research and Development

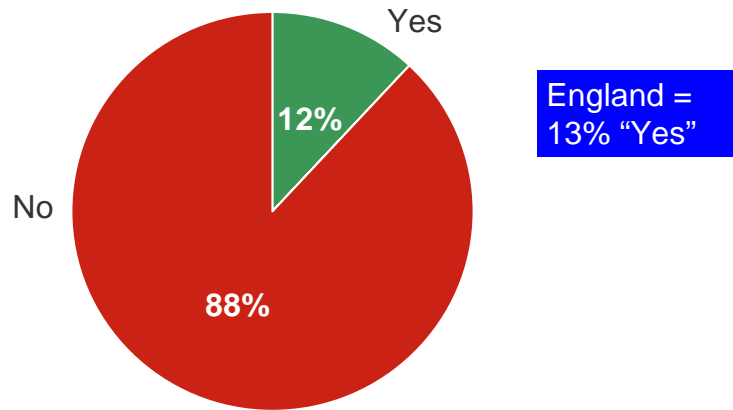
The Office of National Statistics publishes expenditure data on research and development for three sectors: businesses; government; higher education institutions.

Research and development expenditure within businesses was £3,089 million in the South East region in 2005, having increased marginally from £3,035 million in 2004. Expenditure within the government sector has increased slightly from £46 million in 2004 to £49 million in 2005, though it is at a much lower level compared to businesses. For higher education institutions it has increased by 14% from £678 million in 2004 to £770 million in 2005. In the region, total research expenditure has increased from £4,310 million in 2004 to £4,366 million in 2005, with this increase predominantly due to the growth in the higher education sector.

Figure 31

Co-operation with universities

Q Does your business co-operate with universities for research and development activities?



Base: All businesses in South East answering (646)

Ipsos MORI



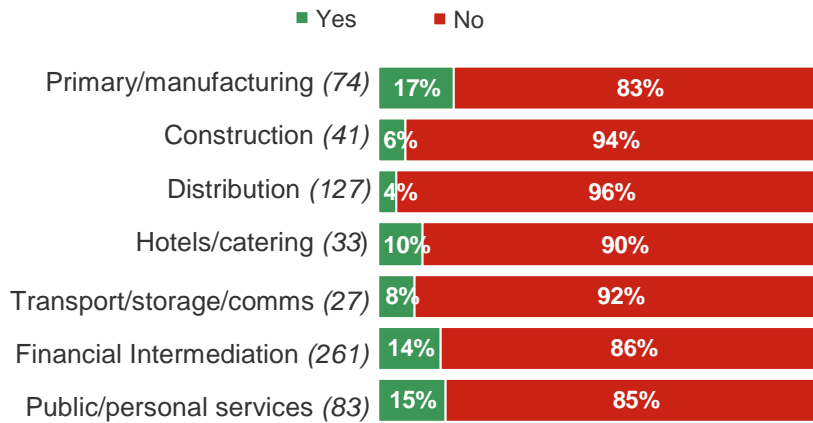
Around one in eight (12%) businesses co-operate with universities for research and development activities, ranging from 4% in the distribution sector to 17% in the primary/manufacturing sector.

Larger businesses are also more likely to co-operate with universities for research and development activities, with a quarter of businesses with more than 50 employees involved in this co-operation.

Figure 32

Co-operation with universities by sector

Q Does your business co-operate with universities for research and development activities?



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI

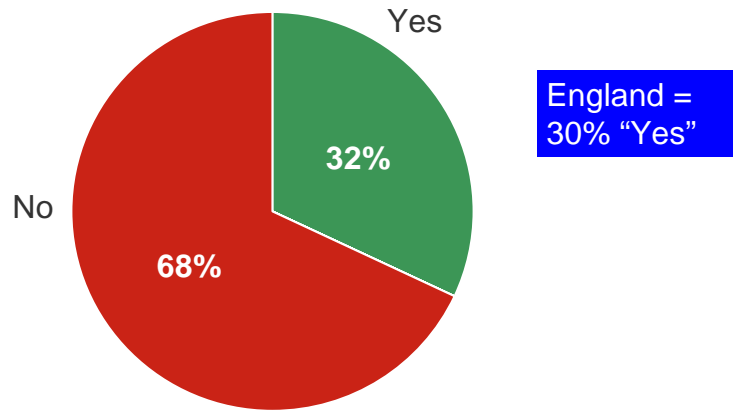


The largest levels of co-operation are in the primary/manufacturing, public/personal services and finance/business services sectors.

Figure 33

Specialist industrial networks

Q Do you belong to any specialist networks designed to help you to keep up-to-date with emerging technologies?



Base: All businesses in South East answering (648)

Ipsos MORI



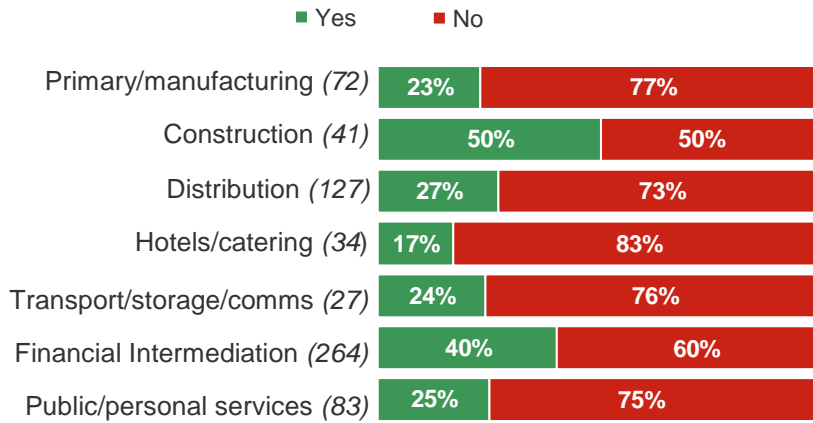
Just over three in ten of businesses belong to a specialist industrial network that is designed to help them keep up to date with emerging technologies. The breakdown by sector is presented in figure 34 below.

It is notable that a half of businesses in the construction sector belong to specialist industrial networks, compared to a third (32%) for the region overall.

Figure 34

Specialist industrial networks by sector

Q Do you belong to any specialist industrial networks designed to help you to keep up to date with emerging technologies?



Base: All businesses in South East answering (shown in brackets)

Ipsos MORI



9. Environmental Performance

The level of environmental emissions was the key issue at the most recent G8 summit which was held in Hokkaido, Japan. Businesses have a major role to play in reducing emissions, and this can be achieved by the implementation of a wide range of initiatives. The National Business Survey asked businesses about whether they have undertaken some of the most well-known actions aimed at improving their environmental performance, such as adopting a recycling scheme or an energy saving scheme.

Monitoring environmental performance was a key part of the Kyoto agreement on climate change and an important part of the G8 discussions at Hokkaido. This section briefly summarises the progress made on key environmental targets over the Kyoto agreement period, and places this in the context of National Business Survey findings on how businesses are quantifying and reducing their CO₂ emissions.

Greenhouse Gas Emissions, 1990 – 2005

Emissions of the 'basket' of six greenhouse gases in 2006 were provisionally estimated to have been about 15% below the base year (the base year is 1990 for carbon dioxide, methane and nitrous oxide, and 1995 for fluorinated compounds).¹⁸

Emissions of carbon dioxide, the main greenhouse gas, were provisionally estimated at some 561 million tonnes (CO₂ equivalent), which is just over 5% lower than in 1990. Emissions increased by about 1.2% between 2005 and 2006, due to an increased use of coal in electricity generation.

¹⁸ All data is from The Sustainable Development Commission (Communities and Local Government) National Indicators unless otherwise stated.

Emissions by Industry Sector

In 2005 carbon dioxide emissions in the transport sector were 14% higher than in 1990, whilst emissions in the domestic and industrial sectors were 5% and 19% lower respectively.

Manufacturing accounts for roughly 14% of UK Gross Value Added (monetary output), employs about 10% of UK workers and is responsible for 24% of UK carbon dioxide (CO₂) emissions.

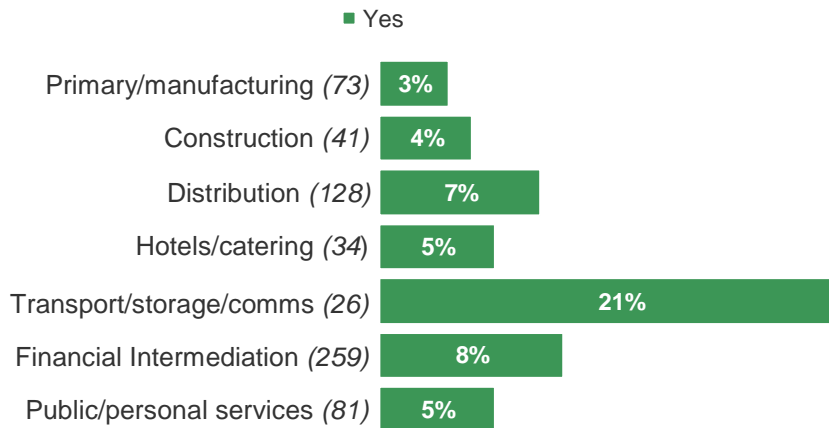
Manufacturing Gross Value Added rose by 5% between 1990 and 2005. However reductions in emissions of CO₂ by 16 per cent, nitrogen oxides (NOx) by 33%, particulates (PM10) by 44% and sulphur dioxide (SO₂) by 62%, were made over the same period.

The service sector is the largest and fastest growing UK sector. It employs about half of the workforce and generates just under half of Gross Value Added (monetary output). Service sector Gross Value Added increased rapidly in the 1990s and in 2005 was 91% higher than in 1990. Carbon dioxide (CO₂) emissions from the sector's energy showed little or no change between 1990 and 2005. Emissions of nitrogen oxides (NOx) reduced steadily over the period and by 2005 were 47% less than in 1990.

Figure 35

Quantified CO₂ emissions by sector

Q Have you quantified the CO₂ emissions from your activities?



Base: All businesses in South East England answering (shown in brackets)

Ipsos MORI

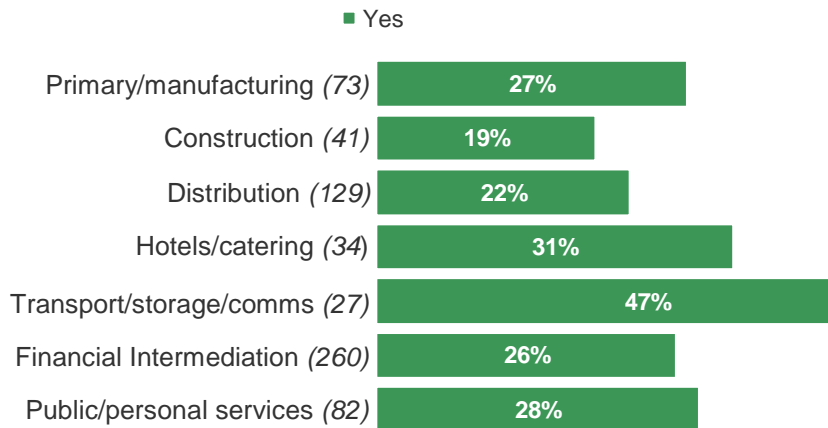


Only one in fourteen businesses have quantified CO₂ emission, though this level rises to around one in five for the transport, storage and communications sector (21%), as presented in the chart above. Almost a quarter of businesses employing more than 50 people have quantified CO₂ emissions.

Figure 36

Reduce CO₂ Emissions by Sector

Q Have you reduced the CO₂ emissions from your activities?



Base: All businesses in South East England answering (shown in brackets)

Ipsos MORI

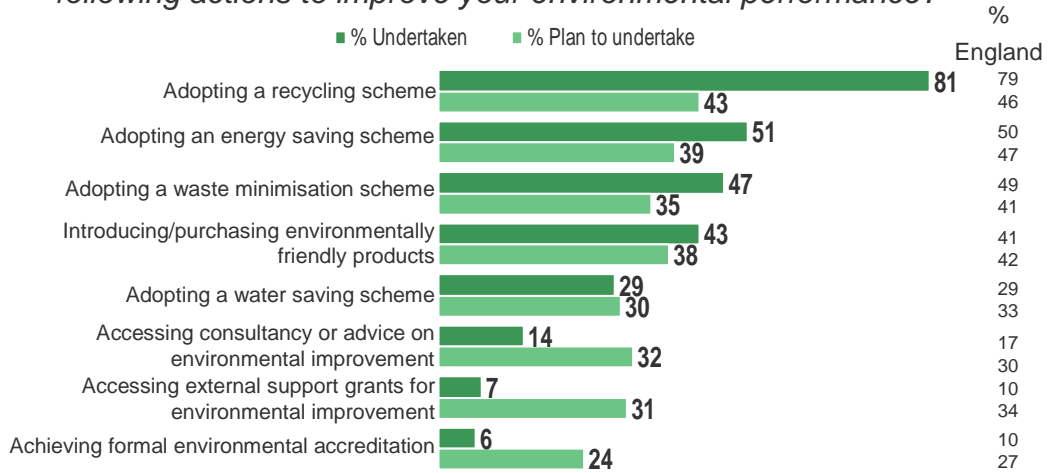


Just over a quarter of businesses (26%) have taken steps to reduce CO₂ emissions, rising to almost a half (47%) for the transport, storage and communications sector as presented in the chart above. However, only around one in five businesses in the construction (19%) and distribution (22%) sectors have taken any steps to reduce CO₂.

Figure 37

Improving environmental performance

Q *Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance?*



Base: All businesses in South East answering (403 and 256)

Ipsos MORI



Generally around four in five businesses have undertaken a recycling scheme, rising to nine out of ten in the hotels/catering sector (90%).

Appendices

Appendix A: Topline data

- Questionnaires were sent by post to business in the South East in April 2008. Reminders were sent to non-respondents in May 2008, along with a “booster” sample. An online survey was also available to postal respondents, and email invitations were sent where addresses were available.
- Fieldwork closed on 13 June 2008. 657 questionnaires were received.
- Where figures do not add up to 100, this is due to multiple coding or computer rounding.
- Results based on “all answering” in each case, excluding those not stating a response.
- Data are weighted by number of employees and region to a known profile within the South East.
- An asterisk (*) represents a value of less than one half of one percent, but not zero.

Q1. Over the next 12 months do you expect the business climate in which your business operates to generally improve, remain stable, or deteriorate?
(Base: 643)

	%
Improve	11
Remain stable	43
Deteriorate	46

Q2. Excluding seasonal variations, what has been the trend during the past 12 months, and what are the expected trends for the next 12 months, with regard to...

	Past 12 months					Next 12 months				
		Higher	Same	Lower	Not applic-able		Higher	Same	Lower	Not app-lic-able
	Base	%	%	%	%	Base	%	%	%	%
Domestic orders	620	23	32	29	16	591	19	34	31	16
Export orders	587	7	11	5	77	554	7	13	7	73
Numbers employed	634	18	55	16	11	605	16	57	17	11

Volume of output	620	30	33	27	10	599	26	34	30	9
Prices charged	634	38	47	12	3	604	41	43	13	3
Profit margins	633	15	40	43	2	603	15	39	45	2

- Q3. Which of the following costs...
 (A) have increased for your business over the past 12 months? (Base: 615)
 (B) do you expect to increase over the next 12 months? (Base: 596)
 (C) presents the main upward cost pressure on your business at present? (Base: 534)

	(A) Past 12 months	(B) Next 12 months	(C) Main upward cost pressure at present
	%	%	%
Energy costs	88	83	36
Transport costs	71	72	38
Staff costs	60	62	29
Raw materials and bought-in services (other than energy)	57	60	31
Property costs	35	34	13
Cost of finance	33	34	14
Other costs	6	8	6
None of these	1	1	3
All selecting more than one response			29

- Q4. Have you passed on any increased costs to your customers in the past 12 months?
 (Base: 650)

	%
Yes – all these increases	7
Yes – some increases	59
No	34

- Q5. Is your present level of output below capacity (i.e. are you working below a full rate of operation)?
 (Base: 642)

	%
Yes	57
No	43

- Q6. Did you have any staff vacancies that you found hard to fill, or could not fill, during the past 12 months, and do you expect to have any in the next 12 months?

	Past 12 months	Next 12 months
Base:	639	632
	%	%
Yes	24	20
No	72	60
Don't know	4	20

- Q7.a Did you provide any formal external or internal training for your staff during the last 12 months?
 - By external we mean training provided by an external training provider
 - By internal we mean training provided by someone employed within your business

	External	Internal
Base:	609	628
	%	%
Yes	50	66
No	50	34

- Q7.b If yes, approximately what proportion of staff undertook such training?

	External	Internal
Base (all answering who provided training during last 12 months):	310	384
	%	%
1-10%	17	11
11-25%	23	14
26-50%	21	18
51-75%	15	15
76-100%	25	41

- Q8. Do the following skills need improving during the next twelve months to meet your business needs?

	Yes	No	Not applicable
Base	%	%	%
606 Sales and marketing	50	37	13
605 IT skills	45	42	12
602 Management skills	41	48	11
602 Office administration	38	51	11
587 Technical, specialist or job-specific skills	37	38	25
592 Customer care	35	55	9
602 Business/Financial planning	35	52	14
592 Communication skills	30	59	10
584 Science, Technology and Engineering skills	16	39	45
574 Foreign languages	10	33	58

- Q9.a Are the following factors important or not important to your organisation's competitiveness?

- Q9.b Are you satisfied or dissatisfied with each of the following in the area in which your business is located?

	Q9a – Importance				Q9b – Satisfaction			
	Important	Not important	Don't know/not applicable		Satisfied	Dissatisfied	Don't know/not applicable	
	Base	%	%	%	Base	%	%	%
Availability of premises	617	45	36	19	578	71	10	19
Access to finance	616	42	40	18	572	52	14	33
Transport infrastructure	615	51	35	14	571	46	33	21

Workforce skills	617	78	12	9	576	65	22	13
Management skills	618)	73	16	11	563	69	14	18
Access to specialist expertise	613	51	34	15	559	57	14	29
Current location	615	62	30	8	571	83	7	10
ICT and broadband infrastructure	617	66	22	12	572	61	20	19
Government regulations	618	70	19	11	569	21	59	20
Business support from government	608	49	33	18	561	15	57	29
Proximity of suppliers	612	30	55	15	558	65	5	31
Proximity of customers	624	64	30	6	564	78	8	14
International trade links	608	16	36	47	544	18	6	76

Q10. Do you expect to spend more or less in the next twelve months than you spent in the last twelve months on...?

		More	Same	Less	Not applicable
		%	%	%	%
Base					
640	Buildings	33	38	11	17
639	Plant and machinery	23	36	12	29
637	Product and process development	25	31	8	37
642	Training and retraining	26	48	9	17

Q11. To what extent do you agree or disagree with the following statements?

		Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
		%	%	%	%	%
Base						
641	This location is a good place for business to invest	21	35	34	7	2
638	I expect the area in which this business is located to become more attractive to investors in the future	15	30	40	11	4

Q12. Please estimate the proportion of your sales in the following areas:

		0	1-10	11-25	26-50	51-75	76-99	100
		%	%	%	%	%	%	%
Base								
615	Within region	4	10	10	8	13	23	33
555	Rest of UK	27	20	15	14	10	11	4
514	Overseas	62	24	6	3	2	2	1

Q13. Please estimate the proportion of purchases (e.g. raw materials and bought-in services) in the following areas:

		0	1-10	11-25	26-50	51-75	76-99	100
		%	%	%	%	%	%	%
Base								
579	Within region	11	14	10	16	15	12	22
537	Rest of UK	18	14	15	21	13	13	7
468	Overseas	59	19	8	5	4	4	1

Q14. **Does your business co-operate with universities for research and development activities?**
(Base: 646)

	%
Yes	12
No	88

Q15. **Do you belong to any specialist industrial networks designed to help you to keep up-to-date with emerging technologies?**
(Base: 648)

	%
Yes	32
No	68

Q16. **Does your company have a formal business growth plan?**
(Base: 645)

	%
Yes	38
No	59
Don't know	3

Q17. **Have you undertaken or do you plan to undertake any of the following actions to improve your environmental performance?**

	Undertaken in last 12 months	Plan to in next 12 months
<i>Base:</i>	403	256
	%	%
Adopting a recycling scheme	81	43
Adopting an energy saving scheme	51	39
Adopting a waste minimisation scheme	47	35
Introducing/purchasing environmentally friendly products	43	38
Adopting a water saving scheme	29	30
Accessing consultancy or advice on environmental improvement	14	32
Accessing external support grants for environmental improvement	7	31
Achieving formal environmental accreditation	6	24

Q18. **Have you quantified the CO2 emissions from your activities?**
(Base: 642)

	%
Yes	7
No	69
Don't know	5
Not applicable	19

Q19. **Have you taken any steps to reduce the CO2 emissions of your business?**
(Base: 646)

	%
Yes	26
No	45
Don't know	6

Not applicable	23
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Q20. **Has your business introduced a new product or process innovation in the past three years?**
(Base: 644)

	%
Yes	36
No	59
Don't know	5

Q21. **How many employees are there at this workplace?**
(Base: 571)

	%
1-9	75
10-49	20
50+	5
Proportion giving an estimate	9

Q22. **Approximately how long has your business been in operation?**
(Base: 652)

	%
Less than 1 year	2
At least 1 year but less than 2	3
At least 2 years but less than 3	4
At least 3 years but less than 5	9
At least 5 years but less than 10	18
10 years or more	64
Don't know	*

Q23. **What is your annual turnover at this site?**
(Base: 640)

	%
0 - 1.9 million	84
£2 – 4.9 million	6
£5 – 9.9 million	2
£10 – 24.9 million	2
£25 – 49.9 million	1
£50+ million	*
Don't know	1
Not applicable	4

Q24. **Please indicate which type of business you are:**
(Base: 646)

	%
Independent	75
Limited Liability Partnership	12
Subsidiary of UK parent	4
Ultimate holding company	2
Subsidiary of foreign parent	1
Don't know/not applicable	6

Q25. **Is this site your headquarters?**
(Base: 649)

	%
Yes	88
No	8
Not applicable	4

Appendix B: Guide to Statistical Reliability

The variation between the sample results and the “true” values can be predicted from knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the “true” value will fall within a specified range, based on a random ‘pure’ sample of the population.

The table below illustrates the predicted ranges for different sample sizes and percentage results at the “95% confidence interval”.

Sample size	Approximate sampling tolerances applicable to percentages at or near these levels		
	10% or 90%	30% or 70%	50%
	±	±	±
1,000	2	3	3
800	2	3	4
500	3	4	4
400	3	5	5
300	3	5	6
200	4	6	7
100	6	9	10

Therefore, with a total sample size of 1,000 completed interviews, where 50% give a particular answer, the chances are 19 in 20 that the “true” value (which would have been obtained if the whole population had been interviewed) will fall within the range of ± 3 percentage points from the sample result; in fact the actual result is

proportionately more likely to be closer to the centre (50%) than the extremes of the range (47% or 53%).

When the results are compared between separate sub-groups within a sample, different results may be obtained. The difference may be “real,” or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is “statistically significant” - it is again necessary to know the total population, the size of the samples, the percentage giving a certain answer, and the degree of confidence chosen. Assuming the “95% confidence interval”, the differences between the two sub-sample results must be greater than the values given in the table below:

Sample size	Differences required for significance at or near these percentage levels		
	10% or 90%	30% or 70%	50%
	±	±	±
890 and 500 (Total vs sub-group)	5	6	6
890 and 200 (Total vs sub-group)	6	8	9
500 and 300 (Sub-group vs sub-group)	3	4	4
500 and 100 (Sub-group vs sub-group)	6	9	9
300 and 200 (Sub-group vs sub-group)	7	9	9
300 and 100 (Sub-group vs sub-group)	9	11	12
100 and 100 (Sub-group vs sub-group)	10	14	14

Appendix C: Bibliography

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